Hydromet Corporation Limited
ABN 71 002 802 646
and its controlled entities

Half-Year Financial Report

31 December 2002

Offices and officers

Principal registered office
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.hydromet.com.au

Company Secretary
Mr Neil W Smith

Offices
Hydromet Corporation Limited
Hydromet Operations (Southern) Limited
Lot 3 Five Islands Road
Unanderra NSW 2526

Telephone: 02 4271 1822
Facsimile: 02 4271 6151
www.Hydromet.com.au

Hydromet Operations (Tasmania) Pty Limited
Risdon Road
New Town TAS 7008

Telephone: 03 6278 9287
Facsimile: 03 6278 9320

Minmet Operations Pty Limited
25 School Drive
Tomago NSW 2322

Telephone: 02 4964 8266
Facsimile: 02 4966 5958

Locations of share registry
Sydney
Computershare Investor Services Pty Limited
Level 3 60 Carrington Street
Sydney NSW 2000

Telephone: 02 8234 5000
Facsimile: 02 8216 5500

Stock Exchange
The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

Other information
Hydromet Corporation Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Auditor
KPMG
PO Box 866
Wollongong NSW 2500

Hydromet Corporation Limited and its controlled entities
For the half-year ended 31 December 2002

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Hydromet Corporation Limited and its controlled entities

Directors' report

The directors present their report together with the consolidated financial report for the half-year ended 31 December 2002 and the review report thereon.

Directors

The directors of the company during or since the end of the half-year are:

Name	Period of directorship
Dr Lakshman D Jayaweera MSc, PhD Chairman Executive Director	Director since 1991- Deputy Chairman from September 2000 to January 2001 and appointed Chairman in January 2001.
Mr Gregory W Wrightson Executive Director and Managing Director	Director since 1998 - appointed Managing Director in September 2000.
Mr Stephen H Kwan MPhil, ATI, MBIM Non-Executive Director	Director since 1991.
Mr Pipvide S Tang MBA, CPA, FCCA Non-Executive Director	Director from 1991 to 1996 and since 1997 – Mr Tang was an Executive Director until August 2000.
Mr Timothy R Allen Non-Executive Director	Appointed Director in October 2001.

Review of operations

Consolidated results

The consolidated loss from ordinary activities for the year attributable to the members of the Company was $1,929,000 (2001: profit $532,000).

Although a loss was forecast for the period a number of significant non-recurring items contributed to the actual result for the period. A temporary decline in revenue was experienced due to completion of some short-term contracts and more importantly the unexpected delay in commencement of long term projects. These included:

- Unrealised waste immobilisation project. This project did not materialise in the December half year due to delay by the generator in making a decision to proceed. Negotiations are continuing and we expect to conduct a plant trial during March – April 2003.
- A three-month delay in commencing Zinc Sulphate production from recycled zinc extracted from the Onesteel electric arc furnace dust.

Additional one off costs were experienced associated with the planned treatment and disposal of Hydromet residues over the period along with extra costs incurred with the treatment of a client residue immobilised for disposal.

Management has continued to concentrate on a number of opportunities to minimize the impact of delays between projects and to maintain strong financial performance to support the future potential of the Company.

Hydromet Operations (Southern) Limited – Unanderra NSW

The Unanderra site was the focus of attention over the period with $2,400,000 capital expenditure invested in the installation and modification of the facility to receive and process up to 7,000 tonnes per annum of electric arc furnace dust from the Onesteel (Sydney) steel mini mill. A three month delay was experienced in completing the first stage implementation of the plant due to equipment lead times along with an additional material handling stage required to upgrade the dust prior zinc extraction. As a consequence, commissioning of the Zinc Sulphate stage of the project fell behind schedule and commenced in late January 2003. Zinc Sulphate from the separation and upgrade process is being evaluated to establish continuity of quality and physical specification before marketing.

The Onesteel project is the main activity of the Unanderra facility at present with prospective Battery Crushing/Recycling and Waste Acid Recycling projects in the course of application preparation for NSW Environment Protection Authority (EPA) and local Council seeking approval for both projects at Unanderra.

During the Onesteel project installation delay, spare plant capacity was used to immobilise stocks of Hydromet lead residue for disposal reducing our disposal liability by over 3,000 tonnes and $1,000,000.

A quantity of lead affected soil from a landfill used to store the lead residue by another waste processor was also treated during the period. This material was extremely difficult to handle through the plant and proved significantly more costly than the treatment fees earned from the project.

Minmet Operations Pty Limited – Tomago NSW

The Falconbridge Project continued at Tomago with a further copper extraction stage added to the Selenium recovery process to increase yield and to improve precious metal concentrate (PMC) value for Falconbridge. The additional step commenced operation in January with selenium yield improved by up to 100% generating increased revenue from the process.

In November 2002 we reached agreement with Kennecott Copper Utah (USA) to process a trial parcel of residue similar to the Falconbridge feed to separate selenium from the concentrate and to send the upgraded PMC to Belgium for refining. The trial parcel arrived in January 2003 for processing in February. Hydromet purchased the residue for the trial based on intrinsic metal content and will yield the sale of selenium extracted and value of upgraded PMC from the Belgium refinery. We are negotiating to conduct future processing for Kennecott on a toll basis as utilised with the Falconbridge material.

Minmet has become dedicated to selenium production with the activity occupying the resources at the facility. We are seeking to secure both clients' on an ongoing long-term basis.

HydroMet Operations Limited – Hobart TAS

Our long term agreement with Pasminco ended on 31 December 2002. Pasminco extended the arrangement to end February 2003 during transition of a process change within their plant. We have received a positive response from Pasminco to explore other processing opportunities for the Hydromet plant and have identified two projects suitable to our circuit. One involves filtering during March, this project has commenced, with the second subject to a trial to be conducted in March also.

Stanton Project

We have received a new exploration lease for the Stanton site for a further three years. This will permit us to continue to hold the lease and development options for the reserve. The Cobalt price has stabilised with signs of improvement over recent months.

Other projects/developments

Hydromet has continued to develop the following prospects to facilitate long-term business continuity for the group:

- Immobilisation of a potential client's water treatment plant residue at our Unanderra plant.
- Implementation of a used lead acid battery crushing and recycling project for Unanderra. Extensive consultation has been had with both Commonwealth and NSW Environment Protection Authority seeking support for a used lead acid battery recycling plant at Unanderra. This project would lead to up to 14,000 tonnes per annum of batteries being crushed and recycled to produce lead metal, lead chemicals and to re-use waste acid from the process in the zinc circuit.
- We are close to final agreement with a client to use Hydromet technology to immobilise up to 4,000 tonnes of lead slag. The project is the result of extensive laboratory work at Unanderra and subsequent plant trial conducted at the client's facility in mid 2002. The project revenue is $1,100,000 and would be carried out over a four to five month timeframe after setting up a small mixing plant on our client's site. Successful completion of the stockpile has the potential to lead to our securing the contract to continue to treat arisings from the smelter again under a long term agreement.
- A trial to immobilise mercury residue at our Hobart plant is planned for March with potential to treat up to 2,000 tonnes of material over a two to three year period.
- We will conduct a plant trial at Unanderra in March on a parcel of electric arc furnace dust from another major steel mini mill generator. The dust contains higher zinc levels and will enhance final zinc sulphate quality and minimize impurities. The client generates approximately 3,000 tonnes of the EAF dust per annum.

Together the projects outlined have a potential revenue value of approximately $8,000,000 and ongoing annual revenue value.

Conclusions

Hydromet experienced a longer than predicted activity slow down moving from the Rio Tinto lead immobilisation project to full scale operation of the Onesteel Zinc Sulphate project with the resultant affect on profit. We expect this position to improve as we enter the zinc market. The drought and strengthening Australian Dollar are expected to influence pricing as we re-enter the market, however we are confident of long-term success and support as we build market share over the next twelve months.

The very encouraging list of challenging future projects has resulted from the success of prior work completed by Hydromet and the growing awareness of our capability in often the difficult waste streams generated in the industrial waste sector.

As evidenced from project development and valuable work in progress we continue to pursue a range of potential long-term opportunities to maximize our processing facilities and to build sustainable business for the future. An objective of the Board is to establish two major ongoing projects at each of the Unanderra and Tomago facilities to provide the sustainable activities necessary to underpin the company's growth.

Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Date at Wollongong this 13 day of March 2003.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

Hydromet Corporation Limited and its controlled entities

Statement of financial performance
For the half-year ended 31 December 2002

	Note	Consolidated 31 Dec 2002 $'000	Consolidated 31 Dec 2001 $'000
Revenue from ordinary activities			
Revenue from sale of goods		294	458
Revenue from rendering of services		1,994	3,854
Revenue from recovery of freight costs		-	1,002
Other revenues from ordinary activities		192	47
Total revenue from ordinary activities		2,480	5,361
Expenses from ordinary activities			
Raw materials and consumables used		(998)	(963)
Direct production costs		(675)	(1,279)
Employee expenses		(1,432)	(1,211)
Depreciation and amortisation expenses		(617)	(600)
Borrowing costs		(22)	(8)
Consultants and professional services		(144)	(116)
Insurance expenses		(111)	(101)
Property rental and site costs		(148)	(119)
Other expenses from ordinary activities		(262)	(432)
(Loss)/profit from ordinary activities before related income tax expense		(1,929)	532
Income tax (expense)/benefit relating to ordinary activities	4	-	-
Net (loss)/profit attributable to members of the parent entity		(1,929)	532
Non-owner transaction changes in equity			
Net increase in accumulated losses on initial adoption of:			
■ Revised AASB 1028 "Employee Benefits"	2,3	(13)	-
Total changes in equity from non-owner related transactions attributable to members of the parent entity	7	(1,942)	532
Basic and diluted (losses)/earnings per share		(0.716)	0.282

The statement of financial performance is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Hydromet Corporation Limited and its controlled entities

Statement of financial position
As at 31 December 2002

	Note	Consolidated 31 Dec 2002 $'000	Consolidated 30 June 2002 $'000
Current assets			
Cash assets		2,966	6,777
Receivables		1,841	1,969
Inventories		278	234
Total current assets		5,085	8,980
Non-current assets			
Property, plant and equipment		9,498	7,770
Exploration, evaluation and development expenditure		302	302
Intangibles		1,030	1,153
Total non-current assets		10,830	9,225
Total assets		15,915	18,205
Current liabilities			
Payables		2,303	1,636
Interest-bearing liabilities		163	33
Provisions		1,253	2,131
Total current liabilities		3,719	3,800
Non-current liabilities			
Interest-bearing liabilities		179	97
Provisions		630	629
Total non-current liabilities		809	726
Total liabilities		4,528	4,526
Net assets		11,387	13,679
Equity			
Contributed equity	5	63,000	62,947
Reserves		506	506
Accumulated losses	3	(52,119)	(49,774)
Total equity		11,387	13,679

The statement of financial position is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

Hydromet Corporation Limited and its controlled entities

Statement of cash flows
For the half-year ended 31 December 2002

	Consolidated	
	31 Dec 2002 $'000	**31 Dec 2001 $'000**
Cash flows from operating activities		
Cash receipts in the course of operations	7,778	5,308
Cash payments in the course of operations	(9,318)	(4,572)
Interest received	123	32
Borrowing costs paid	(22)	(5)
Net cash (used in)/provided by operating activities	(1,439)	763
Cash flows from investing activities		
Proceeds from sale of non-current assets	21	17
Payments for exploration, evaluation and development expenditure	-	(10)
Payments for property, plant and equipment	(2,234)	(499)
Net cash used in investing activities	(2,213)	(492)
Cash flows from financing activities		
Repayments on borrowings	(181)	(31)
Proceeds from borrowings	372	76
Dividends paid	(350)	-
Net cash (used in)/provided by financing activities	(159)	45
Net (decrease)/increase in cash held	(3,811)	316
Cash at the beginning of the financial period	6,777	2,166
Cash at the end of the financial period	2,966	2,482

The statement of cash flows is to be read in conjunction with the notes to the half-year financial statements set out on pages 8 to 15.

1 Statement of significant accounting policies

(a) Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standard AASB 1029 *Interim Financial Reporting*, the recognition and measurement requirements of applicable AASB standards, other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group Consensus Views. This half year financial report is to be read in conjunction with the 30 June 2002 Annual Financial Report and any public announcements by Hydromet Corporation Limited and its controlled entities during the half-year in accordance with continuous disclosure obligations arising from the Corporations Act 2001.

The consolidated half-year financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as disclosed in Note 2, are consistent with those applied in the 30 June 2002 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

Financial position

The consolidated entity incurred a loss from ordinary activities of $1,929,000 for the half year ended 31 December 2002. The result was adversely impacted by:

- a three month delay in implementation of the OneSteel project; and
- additional waste treatment and disposal costs on an immobilisation project.

These issues, and capital expenditure of $2,234,000, have resulted in the consolidated entity's cash position decreasing during the half year ended 31 December 2002 by $3,811,000. At 31 December 2002, the consolidated entity's cash position was $2,966,000.

1 Statement of significant accounting policies (cont'd)

(a) Basis of preparation of half-year financial report (cont'd)

Financial position (cont'd)

At 31 December 2002, the consolidated entity had positive net assets of $11,387,000 and positive working capital of $1,366,000.

The Directors consider the result for the half-year to be due to short term difficulties experienced during the recent transition from one major project to another. In response to these difficulties, the directors and management have taken the following steps, designed to manage and improve the current financial position of the consolidated entity:

- at this stage of implementation of the Onesteel project measures have been undertaken to reduce fixed operating and associated costs, including reduction in operating personnel to the minimum level required to complete the current commissioning phase of the project;
- additional control measures have been implemented to monitor progress to forecast expectations;
- examining other feed options for the zinc circuit to enhance production and accelerate entry into the zinc market;
- increased revenue, through the successful completion of an additional precious metal recovery trial, which should lead to an ongoing treatment project; and
- progress has been made on the development of new projects with potential to contribute to the profitability of the consolidated entity.

In acknowledgement of the result for the half-year ended 31 December 2002 and in light of future projects emerging, the Directors consider that meeting the following important objectives is the key to long term sustainable business for the company:

- throughput of 7,000 tonnes per annum of electric arc furnace dust from OneSteel;
- successful re-entry to the zinc sulphate market, which is currently being impacted by the drought;
- continued growth in the selenium based precious metal recovery projects at the MinMet site;
- the successful implementation of projects currently at various stages of development including:
  - immobilisation of 4,000 tonnes of lead slag;
  - establishment of a mercury immobilisation project;
  - securing of other immobilisation projects for the Unanderra plant;
  - pilot trial to recover and use a spent acid source for the Zinc circuit; and
  - progressing plans to establish a used lead acid battery recycling process at the Unanderra facility.

1 Statement of significant accounting policies (cont'd)

(a) Basis of preparation of half-year financial report (cont'd)

Financial position (cont'd)

The directors believe that the going concern basis of preparation of the financial statements is appropriate for the following reasons:

- with the cost reduction measures recently implemented and following an evaluation of the base case contribution of existing projects, the directors believe that the consolidated entities cash position is sustainable;
- the company is progressing the development of a number of new profitable projects that should be implemented in the short to medium term;
- increasing support received from industry and regulators is expected to continue to facilitate the development of larger scale long term projects for the company; and
- increased awareness of Hydromet's facilities and capabilities has led to prospective opportunities associated with difficult waste streams which can only be dealt with using technology developed by the company over the past five years and a result of a number of successful projects.

On the basis of the above, the consolidated half-year financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the ordinary course of business.

2 Changes in accounting policy

Employee benefits

The consolidated entity has applied the revised AASB 1028 "Employees Benefits" (issued in June 2001) for the first time from I July 2002.

The liability for wages and salaries, annual leave and sick leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

The initial adjustments to the consolidated financial report as at 1 July 2002 as a result of this change are:

- $13,000 increase in provision for employee benefits; and
- $13,000 decrease in opening retained profits.

	Consolidated	
	31 Dec 2002 $'000	**31 Dec 2001 $'000**
3 Accumulated losses		
Accumulated losses at the beginning of the half-year	(49,774)	(51,201)
Net (loss)/profit attributable to members of the parent entity	(1,929)	532
Net effect of initial adoption of:		
■ Revised AASB 1028 "Employee Benefits"	(13)	-
Dividends	(403)	-
Accumulated losses at the end of the half-year	(52,119)	(50,669)

Hydromet Corporation Limited and its controlled entities

Notes to the financial statements
For the half-year ended 31 December 2002

4 Taxation

The income tax expense of nil differs to the prima facie income tax expense because the future income tax benefit relating to tax losses and timing differences has not been recognised. The future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of this benefit is not virtually certain.

	Note	Consolidated 31 Dec 2002 $'000	Consolidated 30 June 2002 $'000
5 Contributed equity			
Issued and paid-up share capital			
270,131,585 (30 June 2002: 268,972,402) ordinary shares, fully paid	(a)	63,000	62,947
		63,000	62,947

(a) Ordinary shares

	31 Dec 2002 $'000	30 June 2002 $'000
Balance at the beginning of year	62,947	59,229
Shares issued		
■ Nil (30 June 2002: 43,957,184) shares issued for cash under Share Purchase Plan	-	2,198
■ Nil (30 June 2002: 36,000,000) for cash issued by private placement to professional investors	-	1,800
■ 1,159,183 (30 June 2002: Nil) shares issued under a dividend reinvestment plan	53	-
■ transaction costs arising from issue for cash	-	(280)
Balance at end of year	63,000	62,947

Ordinary shares

On 25 October 2002 the Company issued 1,159,183 ordinary shares at a price of 4.59 cents per share under the Company's approved Dividend Reinvestment Plan.

The voting rights attaching to the ordinary shares are set out in Rule 11.15 of the Company's Constitution.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

5 Contributed equity (cont'd)

(a) Ordinary shares (cont'd)

Options

6,000,000 options fully vested, expiring on 28 August 2003, with an exercise price of 15.0 cents per option.

On 19 December 2002 the Company issued a total of 10,000,000 ordinary shares options to directors pursuant to approval of shareholders at the annual general meeting held on 29 November 2002. These options have an exercise price of 8.0 cents and expire on 31 March 2007. There are differing vesting dates in four parcels of 2,500,000 vesting annually for four years commencing on 31 December 2003.

On any allotment the shares are fully paid up to the exercise price and will rank equally with all other fully paid shares.

No options were exercised during the half-year or prior year.

	Consolidated	
	2002 **$'000**	**2001** **$'000**
6 Dividends		
During the reporting period, Hydromet Corporation Limited has paid or provided for dividends not previously recognised in retained profits as follows:		
Final dividend on:		
■ Ordinary shares, paid on 25 October 2002	403	-
	403	-
7 Total equity reconciliation		
Total equity at beginning of the half-year	13,679	8,533
Total changes in parent entity interest in equity recognised in statement of financial performance	(1,942)	532
Transactions with owners as owners:		
■ Contributions of equity under dividend reinvestment plan	53	-
■ Dividends	(403)	-
Total equity at end of the half-year	11,387	9,065

8 Contingent liabilities

(a) Environmental contingent liabilities

Hazardous by-products are produced during the manufacturing processes carried on by Hydromet Operations (Southern) Limited, Minmet Operations Pty Limited and Hydromet Operations Limited. The controlled entities have established strict procedures to ensure that all such hazardous by-products are disposed of safely.

Provisions have been made in the accounts for the estimated costs of disposal of these by-products on hand at 31 December 2002. These provisions are sufficient to meet the disposal requirements of current environmental legislation. However, these operations are subject to rapidly changing environmental legislation in various jurisdictions and future obligations to meet changing environmental legislation could involve the consolidated entity in costly work. The directors are not aware of any impending changes to the requirements or of any current breaches of legislation which are material in nature.

(b) Deed of cross guarantee

Pursuant to ASIC Class Order 98/1418 (as amended) dated 13 August 1998 the wholly owned subsidiaries listed below are relieved from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports.

It is a condition of the Class Order that the Company and each of the subsidiaries enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the subsidiaries under certain provisions of the Corporations Act 2001. If a winding up occurs under other provisions of the Act, the Company will only be liable in the event that after six months any creditor has not been paid in full. The subsidiaries have also given similar guarantees in the event that the Company is wound up.

The subsidiaries subject to the Deed are:

- HydroMet Operations Limited;
- HydroMet Operations (Southern) Limited;
- HydroMet Operations (Tasmania) Pty Limited;
- HydroMet Operation (NT) Pty Limited; and
- Enviromet Operations Pty Limited.

9 Segment reporting

The consolidated entity operates in Australia, treating industrial residues using hydrometallurgical processing technology.

10 Economic dependency

The Company and consolidated entity earns the majority of its revenue through the application of its Hydroproc technologies in discrete projects performed under contract. A prerequisite to the majority of these applications is approval from the relevant State Governments' Environmental Protection Agency (EPA). Due to the nature of treating industrial residues the Company must obtain EPA approval for some specific processes utilised. Without appropriate approval these projects would be significantly restricted. Such approvals are only granted after the EPA carries out rigorous examination of the submission.

To date Hydromet has been successful in obtaining six specific approvals for treatment technologies developed by the Company.

For the half-year ended 31 December 2002 waste treatment fees comprised 85% of total operating revenues earned with recycled product sales and other revenue comprising the balance.

The Company earned these treatment fees from the following major clients:

- Falconbridge 40%;
- Transfield 17%; project was completed during the period
- Pasminco 12%;
- Onesteel 11%;
- Australian Metal Recovery 6%;
- Others 14%; and

Other recycled product sales would substantially comprise the remaining 15% of operating revenues.

Hydromet Corporation Limited

Directors' declaration

In the opinion of the directors of Hydromet Corporation Limited:

1 the financial statements and notes set out on pages 5 to 15, are in accordance with the Corporations Act 2001, including:

a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2002 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

b) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001;

2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3 there are reasonable grounds to believe that the Company the subsidiaries identified in Note 8(b) will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

Date at Wollongong this 13 day of March 2003.

Signed in accordance with a resolution of the directors:

GW Wrightson
Managing Director

KPMG

Independent review report to the members of Hydromet Corporation Limited

Scope

We have reviewed the financial report of Hydromet Corporation Limited for the half-year ended 31 December 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 10, and the directors' declaration. The financial report includes the consolidated financial statements of the consolidated entity, comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report.

We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements and statutory requirements in Australia so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. Our review has not involved a study and evaluation of internal accounting controls, tests of accounting records or tests of responses to inquiries by obtaining corroborative evidence from inspection, observation or confirmation. The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hydromet Corporation Limited is not in accordance with:

a) the Corporations Act 2001, including:

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2002 and of its performance for the half-year ended on that date; and

ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

KPMG

C Hollis

Chris Hollis
Partner

Wollongong
13 March 2003